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HEADLINE: Make Sure Maryland Keeps The Jackpot

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BODY:

Maryland Gov. Robert L. Ehrlich Jr. aims to rescue both the state budget and its racing industry by creating an immensely valuable new franchise - and then handing half of the take over to pre-selected operators. If the legislature buys his plan to place 10,500 slot machines at four Maryland racetracks - and that is still very much an open question -- there's no reason the state has to let so much potential revenue, and so many development opportunities, get away. It should put this whole enterprise out for competitive bid.

Let's not fool ourselves about the new governor's proposal. "Slots at the tracks" essentially brings casino gambling to Maryland without the casino buildings. Slot machines account for the bulk of revenue at the upscale casinos of Nevada and New Jersey -- \$9.1 billion in 2000, compared with only \$4.4 billion from table games such as blackjack and craps. For smaller, more downscale casinos, slots may account for more than 75 percent of total revenues.

It's hard to make direct comparisons, because each state has a different formula for calculating its share of the take, but slot machines have been truly remarkable generators of state revenue. In 2001, West Virginia raised \$156 million from just 6,800 machines, about \$23,000 per machine; Rhode Island pulled in \$102 million from its 1,700 machines. In Delaware, slots produced an extraordinary 9 percent of state revenues. An estimate of \$500 million in annual revenue -- once the system is in place -- is not unreasonable, given the larger population with easy access to Maryland's tracks. (Ehrlich's proposal is based on taking a higher percentage of the amount gambled.)

The question must be asked: Should Maryland allow slot machines at all? There is a sense of historical inevitability about this expansion of legal gambling. Forty years ago, legal betting in the United States was limited to the casinos in Nevada, race tracks in 23 states and bingo parlors just about everywhere. These days, the vast majority of Americans have fairly easy access to nearly every form of popular wagering. About half of Americans live within 50 miles of a casino, operated either by a Native American tribe or under state license. Moreover, 38 states and the District run lotteries, employing aggressive marketing tactics to maximize their revenues.

It is hard to sustain a moral argument against gambling in a society that indulges so many other forms of vice. Opponents tend to emphasize

Pragmatic considerations -- that some forms of legal gambling create so much crime and social dysfunction that society as a whole suffers when the state encourages it. There's no doubt that pathological gambling is a real problem (affecting as many as 3 million Americans from time to time). But most studies, including my own, have found no evidence that casinos contribute significantly to street or property crime.

In most states, the principal argument in support of casinos has been that it helps the economy. But Maryland, with a history of corruption around slot machines, has been hard to convince. In 1995 the governor and legislature appointed a task force, chaired by former senator Joseph Tydings, to study whether casino gambling should be allowed. As the task force's executive director, I well remember the fierce debates over the question of economic development benefits. One state agency, arguing that gambling would replace other recreational expenditures, asserted that casinos would cause the loss of 7,000 jobs. Another state agency, however, using a different economic model, estimated that casinos would add 20,000 jobs. Other studies, sponsored by private organizations, further muddied the waters.

Unlike today, the state budget was in good shape, so the discussion didn't revolve around a need to close a billion-dollar deficit. The task force's final report recommended against casinos, largely because of the horse racing industry's opposition at the time. "Slots at the tracks" was an option only just beginning to emerge; the report recommended a "poison pill" agreement among Maryland and its neighbors; no slots at any of them or slots for all. The legislature did not find this persuasive and did not pursue it.

The subsequent success of slots at tracks in West Virginia and Delaware changed the picture. The worst fears of the Maryland racing industry came true: Not only did slots draw bigger crowds, but they had a snowball effect. As competing tracks' finances improved, they were able to offer bigger purses for the horse owners. In 1992, purses at Charles Town's run-down track averaged \$22,000 a day; by 2001, the figure was \$140,000, almost the same as those offered at Maryland's more prestigious tracks. Maryland's attendance and handle fell as the better horses followed the prizes out of state.

The racing industry offers a number of self-interested arguments for why it should get the franchise. Slot machines outside of the tracks would devastate racing and that in turn would hurt the horse industry, which, according to a recent University of Maryland study, provided barely 10,000 jobs, most quite poorly paid. Tradition and preservation of the landscape are also mentioned; the horse country outside of Baltimore, with its neat fences, brilliantly green fields and gorgeous animals, is part of the state's positive image of itself, just as the Preakness brings a day of state pride. It is sometimes noted that racetracks are already set up to handle large flows of bettors; it is less disruptive to have the betting there rather than encourage the development of new facilities, with their demands for new roads, sewage connections etc. With a little imagination, the proposition can be put under the label of "smart growth."

The plain fact is this: The racing industry is fighting for survival. Betting on horse races generated only \$3.6 billion in revenues nationwide in 2001, compared with \$38 billion from casinos.

This disproportion has been growing for years; in 1982, tracks generated \$2.7 billion and casinos \$4.2 billion. Slots at the track cannot save an industry with an aging customer base and a very expensive method for providing betting opportunities. But slots can make the owners of tracks a lot richer. At Prairie Downs, a racetrack in Iowa, slot machines account for about 90 percent of the purses; the track is simply the way for the owner to justify getting the franchise. The casino industry is full of facades like this. Few "riverboat" casinos can actually move in the water. Many "tribal" casinos are operated by regular companies but are justified by the fact that the profits ultimately go to the Native American tribes.

So slots might save the racing industry. But would they be good policy for Maryland? The machines, particularly those in bare-bones settings, are likely to attract a disproportionate number of low-income patrons. Heavy taxation of gamblers -- critical to the political success of the proposal -- continues a disreputable practice of soaking the pleasures of the poor.

Moreover, in its rush for immediate tax revenues, the state is ignoring the other economic consequences of casino-like facilities. For example, Biloxi, once a dying Mississippi coastal resort town, is now a thriving community, courtesy of the casino industry. If Maryland is going to expand legalized gambling in the state, casinos offer more opportunities for economic development (restaurants, hotels, other entertainment facilities) than slots at the tracks.

Valuable franchises need not be handed out so arbitrarily. If the state thinks that allowing 10,500 slot machines is good public policy, then it can seek bids for the right to operate them. Bidders would specify how much they would pay (an initial fee and a percentage of the winnings or perhaps just a guaranteed minimum total payment for each of the next five years) and identify the economic and environmental consequences of their bid. Choosing one would be partly a political process, but at least it would reveal the considerations involved and allow an informed choice.

The state needs money now, and this process will take many months. That can be handled by charging the tracks a one-year rental fee to allow the state's Lottery Commission to operate slots on their premises. The commission already operates a large network of machines that offer Keno, a form of fast-action gaming not much different from slots. No one will be willing to invest much in nice facilities on such a short-term basis, but the machines -- which cost \$10,000 each but produce an average of \$250 a day in revenue, paying for themselves in less than six weeks -- will satisfy all parties while the long-term decisions are being made. It is worth waiting a few months so that a more sensible process can inform a multibillion-dollar decision with such long-lasting consequences.

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